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C O N F I D E N T I A L PANAMA 000545

SIPDIS

FROM THE AMBASSADOR FOR SECDEF AND STATE INL A/S JOHNSON

E.O. 12958: DECL: 07/03/2018

TAGS: [PREL](#) [PGOV](#) [SNAR](#) [MASS](#) [PM](#)

SUBJECT: PANAMA: JULY VISIT OF MINISTER OF GOVERNMENT AND
JUSTICE

Classified By: Ambassador William A. Eaton. Reasons: 1.4 (b),
(c) and (d).

Summary

¶1. (C) Following up on Panamanian President Martin Torrijos' May 7-8 visit to Washington and meetings with the President and the Secretaries of State and Defense, Panamanian Minister of Government and Justice Daniel Delgado will travel to Washington July 7-10 to continue security-related discussions. Delgado's visit also comes on the heels of Deputy Assistant Secretary of Defense Stephen Johnson's June 24-25 visit to Panama City. First and foremost on Delgado's mind will be securing USG security assistance to better enable Panama to confront illegal narcotics trafficking, combat terrorism (including increasingly bolder incursions by the Revolutionary Armed Forces of Colombia (FARC) into Panama), and ensure the continued security of the Panama Canal. Torrijos told DASD Johnson on June 24, "I want to leave Panama's security apparatus in order by the time I leave office" on July 1, 2009.

Security Issues Come to the Fore

¶2. (C) Over the past six months, security concerns have become one of the top issues on the minds of Panamanian voters. (Note: Panamanians go to the polls on May 3, 2009 to select Torrijos' successor; the primary season is already in full swing.) Panama experienced a significant up-tick in crime, not only in Panama City but also across the country, leading to an increasing clamor that the GOP do something to improve law and order. FARC incursions into Panama -- including a February 22, 2008 fire fight between PNP and FARC launches off the Darien coast that resulted in the capture of six FARC members, the discovery by a PNP patrol of a semi-permanent FARC base outside of the town of Guayabo in the Darien, and the kidnapping of a U.S. citizen from Panama City with the collusion of the FARC -- have focused the Torrijos Administration's attention on the threat posed by the FARC, challenging Panama's traditional live-and-let-live attitude toward the FARC.

¶3. (C) Continued record seizures of illegal narcotics in Panama serve to underscore that Panama remains a cross roads for illicit trade. Panama has cooperated well with U.S. law

enforcement agencies in combating narcotics trafficking and transnational crime. For example, of the 120 metric tons of cocaine seized by authorities in the hemisphere during 2007, Panama accounted for about 60 tons or nearly 40 percent of the total. So far in 2008, law enforcement authorities have seized some 20 metric tons of cocaine.

What Delgado Wants

¶4. (C) Presently, Panama is transfixed on acquiring equipment, primarily helicopters, but has not given sufficient consideration to the level and speed of the assistance it would like from the USG nor specified what help it would like from the USG. The right level and speed of USG assistance directly depends upon Panama's ability to politically absorb our help. Additionally, Panama would like great information exchange on security matters. Delgado is likely to lay out his five-year plan for strengthening Panama's security apparatus and to simply ask where the USG believes it can plug into his plan. Increasingly, the "militarization" debate -- an ever-present political undercurrent -- is coming to the forefront as Panama strives to address legitimate security needs while also coming to terms with its experience with military dictatorship. Delgado's visit provides an opportunity to enhance our already strong bilateral relationship by strengthening our security cooperation, but both the U.S. and Panama will need to tread carefully to navigate the political complexities of our bilateral relationship in this area.

Two Steps Forward, One Step Back

¶5. (C) Following Torrijos' meeting with the President, DEA quickly acted to deploy a FAST team of U.S.-piloted helicopters to assist the GOP security forces in the remote Darien region. Delgado abruptly turned off this deployment -- a decision eventually supported by Torrijos and First VP and FM Lewis -- asserting a lack of adequate coordination and the fear that AMCIT pilots would be put in danger. The GOP is also very concerned, however, about maintaining tight control over access to the Darien. Although the GOP is prepared to accept equipment for their own use -- Panama at its own expense sent 10 pilots to the U.S. for helicopter training -- allowing greater access to the Darien that would enhance USG situational awareness in the region may be one bridge too far for the Panamanians at this stage. The GOP is aware that Colombia's continuing successes against the FARC will likely push them into Panama, but has yet to come to terms with how to address this threat, let alone whether to try to do so alone or in concert with its leading international partner, the U.S.

¶6. (C) It should be kept in mind, however, that the USG has made significant progress in engaging Panama in a broader security discussion on tough issues, including the FARC's presence in the Darien and its operations (primarily drug trafficking) throughout Panama. Indeed, Torrijos' use of the term "FARC" in his conversations with DASD Johnson where previously high-level Panamanian officials preferred to refer generically to "drug traffickers" or "organized crime" is an indication that Panama is becoming aware of the need to meet this threat head on. Post's Office of Defense Cooperation (ODC) enjoys greater access to the Darien, particularly Meteti, though it is not yet able to conduct training in the region. However, we enjoy full access to the region to conduct Humanitarian and Assistance initiatives such as Medical Readiness Training Exercises. Additionally, we have a 12-man Joint Planning and Assistance Team preparing to provide technical assistance to the Frontier Force.

Torrijos' Legislative Powers on Security Matters

¶7. (C) Before going into recess on June 30, Panama's National Assembly granted Torrijos extraordinary powers to enact legislation: establishing the National Aero-Naval Service (SENAN), the National Frontier Service (SENAFRONT), modifying and adding additional authorities to the Council for Public Security and National Defense (CSPDN), and, most controversially, enabling the President to name a uniformed officer to head the Panamanian National Defense (PNP). While these updates to Panama's security architecture are much needed, the Torrijos Administration has failed at explaining the need for these reforms to the general public and has gotten itself on the wrong side of the "militarization" debate. Now on the defensive, the Torrijos Administration finds itself in the awkward position of trying to explain how, despite its secretive treatment of these issues and the governing Revolutionary Democratic Party (PRD) roots in military dictatorship, that these reforms seek to strengthen civilian control of the security forces, are not aimed at restoring the military, and will be conducted in a way that not only respects, but strengthens, democracy.

Booming Economy, But Problems Linger

¶8. (SBU) Delgado's visit comes at a time when Panama's economic boom contrasts starkly with high levels of poverty, wide income disparities, persistent corruption, and decaying educational and healthcare systems. Panama's 11.2 percent GDP growth in 2007 topped the region, driven largely by significant growth in construction, ports and maritime services, banking and financial services, and tourism. Foreign investment, which topped USD 1 billion in 2007, continues to pour into Panama, as U.S. multinationals such as Procter and Gamble, Hewlett Packard, 3M, and Caterpillar move

into Panama. Occidental Petroleum and Qatar Petroleum will soon decide whether to proceed with their proposed USD 8-9 billion refinery project in the Puerto Armuelles area of western Panama, which would be a significant addition to Panama's USD 17 billion economy. With the country's strong economic growth over the past five years, Panama has cut unemployment by about half, dropping from about 14 percent in 2003 to just over 6 percent today. However, an estimated 20 percent of Panama's workforce remains underemployed.

¶9. (SBU) Panama also maintains one of the most liberalized trade regimes in the hemisphere. As Panama's largest trade partner (with two-way trade of USD 4.1 billion in 2007, an increase of 33 percent over 2006), the U.S. consistently runs a huge trade surplus with Panama, exporting about ten times more than it imports. The U.S. and Panama signed a bilateral Trade Promotion Agreement (TPA) last June that the Panamanian National Assembly ratified two weeks later by an overwhelming vote. However, U.S. ratification remains on hold as a result of the National Assembly's September 2007 election as president of the chamber of Pedro Miguel Gonzalez who is under federal indictment in connection with the 1992 slaying of a U.S. soldier.

¶10. (SBU) Despite being one of Latin America's fastest growing economies over the past 15 years, Panama's poverty rate has persisted at nearly 40 percent overall and has exceeded 80 percent in rural indigenous areas. Torrijos hopes that sustained growth resulting from the Panama Canal expansion project and the TPA will help push Panama into "first world" status. However, neither the Canal nor the TPA is a panacea, as cronyism and weak institutions (especially the notoriously corrupt judiciary and troubled health and education sectors) have kept Panama from attaining more broadly shared prosperity.

¶11. (SBU) After some twenty years of enjoying low inflation (ranging between 1.5 and 2 percent), Panamanians now face an upward spiral in the cost of living. Annual inflation reached 4.7 percent by the end of 2007 and is now running at about 8.8 percent. Increases in the price of food have run at nearly twice the overall inflation rate. The monthly cost

of a "basic basket" of foodstuffs defined by the GOP as the minimal amount needed by a typical Panamanian has skyrocketed by more than 20 percent over the past year, reaching nearly USD 250 per month. This means that workers earning the minimum monthly wage of USD 310 must spend more than 80 percent of their income on food, while those earning the average wage of USD 400 spend more than 60 percent of their earnings just to buy the basic food items. This, combined with fast-rising electricity and gasoline prices, has tightened the squeeze on low and middle-income families.

¶12. (SBU) Despite spending about 12 percent of the GOP's budget and 5 percent of GDP on education, Panama suffers from a poorly educated workforce. About half of prospective University of Panama students fail their entrance exams, prompting university authorities to lower the threshold for entrance. About one-third of the applicants to GOP worker training programs are rejected because they lack the requisite literacy and math skills. Panamanian and multi-national firms must draw from a labor pool that is poorly equipped to compete in the global economy. One U.S. multi-national found that less than 1 percent of some 200 prospective Panamanian employees passed the firm's qualifying examination. By comparison, the firm found that pass rates elsewhere in the region typically ranged from 15 to 20 percent. This dynamic is exacerbated by laws that require foreign firms to staff 90 percent of their local operations with Panamanian employees.

Panama Canal Expansion Underway

¶13. (U) In September 2007, the Panama Canal Authority (ACP) formally launched its eight-year, USD 5.25 billion program to expand and modernize the Panama Canal. This project is due for completion in 2014. The ACP plans to finance the project through a combination of Canal revenues, increased tolls, and USD 2.3 billion in bridge loans. U.S.-based engineering and

law firms have won initial contracts to provide project management and legal advisory services to the ACP. Four consortia, one led by Bechtel, are preparing to bid in late 2008 on the design/build contract for the new, much larger sets of locks that will be built in parallel to the existing locks. With an estimated contract value of about USD 3.5 billion, this represents the largest share of expansion-related work. The winning consortium will have to contend with the upward spiral in fuel and construction materials costs, Panama's shallow pool of skilled labor, and constraints on housing, transportation, and other infrastructure.

Panama's Politicos Jockey for 2009 Elections

¶14. (SBU) Twelve months from the end of his five-year term, President Torrijos has seen his public approval rating erode considerably, declining, according to some polls, by as much as 60 percent. His Revolutionary Democratic Party (PRD) dominates Panama's unicameral National Assembly and other governmental institutions. Opposition parties remain fractured and, so far, unable to coalesce into an effective counterweight. One is the Panamenista Party, the largest opposition party, has held its primary elections on July 6, opposition parties may turn in earnest to the task of alliance formation. For now though, the PRD appears well positioned for the May 2009 elections. Torrijos is constitutionally prohibited from a consecutive term, and his former Housing Minister and long-time PRD figure, Balbina Herrera, currently leads the pack of aspiring PRD successors.

In the most recent national poll conducted in late June by Unimer, however, opposition maverick Ricardo Martinelli of Democratic Change (CD) recaptured his lead in the national polls after a three month lapse by polling 22.7 percent, followed by Herrera at 20.9 percent, PRD candidate Juan Carlos Navarro at 11.2 percent, and Panamenista Party

candidate Juan Carlos Varela at 9.4 percent and Alberto Vallarino at 7.4 percent. Unable to draw more than 3 percent in earlier polls, First VP and FM Samuel Lewis did not register to run for the PRD presidential nomination and will sit out the 2009 campaign.

Panama at the UN Security Council

¶15. (SBU) In late 2006, Panama emerged as Latin America's consensus candidate for a two-year seat on the UN Security Council (UNSC). This followed a prolonged deadlock between Venezuela and Guatemala in the voting for non-permanent members in the UN General Assembly. Panama has consistently voted with the U.S. and has played a constructive role on the UNSC. In other foreign policy matters, Torrijos has pursued a policy of maintaining friendly relations with all countries that seek friendly relations with Panama, including Cuba and Venezuela.

EATON